



CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: State Budget Update

MEETING DATE: August 20, 2003

PREPARED BY: Deputy City Manager

RECOMMENDED ACTION: That the Council receive a verbal report from the City Manager regarding the State of California budget

BACKGROUND INFORMATION: Mayor Hitchcock has requested that the City Manager provide an update regarding the State of California's budget during each Council meeting.

On August 2, 2003, Governor Davis signed AB1765 implementing the Fiscal Year 2003-04 State Budget. Included in the Budget is the "triple flip" legislation (AB 1766) and the State's ability to finance \$10.7 billion of the budget deficit (AB7x). AB 1766 reduces a ½ cent of local sales tax, increases the state sales tax by a ½ cent, and dedicates that increased state tax to the debt payment on the bonds. Local governments are reimbursed on a dollar for dollar basis from the ERAF property taxes.

There is still no resolution to AB 1768 which would require the State to repay the Vehicle License Fee (VLF) gap (estimated to be \$825 million according to the League of California Cities) to cities and counties by 2006. The bill additionally provides \$40 million in funding to local agencies that qualify as "hardship cases."

Attached for Council's information is an update from Debbie Olson (League of California Cities) regarding the VLF issue.

Staff will continue to monitor the State budget and will apprise Council of any direct or indirect hits to municipalities.

FUNDING: None

Respectfully submitted,

Janet S. Keeter
Deputy City Manager

Attachment

APPROVED:

H. Dixon Flynn -- City Manager

Janet Keeter

From: Debbie Olson [dolson@cacities.org]
Sent: Wednesday, August 13, 2003 8:51 AM
To: Debbie Olson
Subject: Car Tax Repeal Proposal



CAR TAX REPEAL
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Many may be wondering what the word is on the Repeal of the Car Tax. Attached is an excerpt from a briefing I received yesterday. Feel free to share it with staff and council. While it doesn't contain anything different than what you've read in the papers, it is a bit more concise.

Debbie Olson

MEMORANDUM

RE: Repeal of Car Tax Hike

As you know, the recent budget passed by both houses and signed by the Governor contained a tripling of the Vehicle License Fee (VLF) back to its 1998 levels. This car tax increase raises approximately \$4 billion for local governments, replacing the elimination of their state backfill.

Assemblymember Darrell Steinberg (D-Sacramento) will introduce legislation next week that will create another "swap" of tax revenues similar to the swap that occurred in the state budget involving a half-cent sales tax and local property taxes. Assemblymember Steinberg's proposal would repeal the car tax hike, thereby leaving the VLF fees at their current rates and would instead raise income taxes on the wealthiest Californians, and would increase sales taxes on cigarettes. An interesting note about this proposal is the similarity to a proposal put forth earlier in the year by Governor Gray Davis. Governor Davis proposed leaving the VLF at current levels and increasing taxes on the wealthiest Californians and on cigarettes and alcohol. Although an increase in the alcohol tax is being discussed, it is our understanding that it is not part of Assemblymember Steinberg's current proposal.

Although the tax swap seems simple, there are some major legal issues that must be researched by the Assembly before the legislation moves forward. One major legal question is whether or not the Steinberg legislation would require a majority or two-thirds vote for passage. Assemblymember Steinberg feels that the bill would need only a simple majority vote due to the fact that it does not raise any new state revenues, but merely swaps one tax for another. The Republicans are quickly opining that any tax increase, regardless of whether it is new revenues, is a two-thirds vote and that the Democrats are simply trying to get around the higher vote requirement.

Why the change of heart on the VLF increase? The answer is simple - "Recall". The Democrats and Governor Davis have always known that the VLF increase polled among Californians at the very bottom of potential tax increases being considered to close the \$38 billion deficit this year. However, with the Republicans' "no new taxes" position firmly taken this year during budget negotiations, the Democrats felt that the only tax increase that could help them with the budget hole would be the triggering of the VLF increase as proposed in the original legislation signed by Pete Wilson in 1998. Democrats feel that the tripling of the car tax could add to the anger many Californians have with the Legislature and Governor Davis and are working to repeal this car tax hike before the end of session on September 12th.

Obviously, our concern with repealing the car tax hike is the potential danger to local government if the swap does not produce an equal amount to replace the revenues lost by repealing the car tax hike. Also, we still do not have the final numbers of how much money each of these additional tax increases will generate. For example, the numbers we are hearing are that income taxes on the upper income tax brackets may increase from 9.3 percent to 11 percent, which raises approximately \$2 billion a year. Also, the proposal we have seen on the cigarette tax would increase from .87 cents a pack to \$1.10 a pack. We have not heard how much this .23-cent increase would bring into the state.

Talks with Assembly Democrats and Assemblymember Steinberg are ongoing and we will continue to get the information regarding this proposal to you as we get it.